

SUMMARY ANALYSIS OF AMENDED BILL

Author: Gaines Analyst: Scott McFarlane Bill Number: AB 2491
 Related Bills: See Prior Analysis Telephone: 845-6075 Amended Date: May 6, 2008
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Depreciation Deduction Conformity

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED APRIL 3, 2008, STILL APPLIES.

OTHER – See comments below.

SUMMARY

This bill would conform California franchise and income tax business-expensing rules to the accelerated business-expensing provisions of the federal Economic Stimulus Act of 2008 (ESA of 2008).

SUMMARY OF AMENDMENTS

The bill as amended April 3, 2008, would have fully conformed California franchise and income tax depreciation rules to the federal depreciation rules for tax years beginning on or after January 1, 2008. The May 6, 2008 amendments limit conformity to the one-year accelerated business expensing provisions of the federal ESA of 2008. As a result of the amendments, the Implementation Considerations have been resolved, and the This Bill and Economic Impact discussions included in the analysis of the bill as amended April 3, 2008, have been revised.

Except for the discussion in this analysis, the remainder of the department's analysis of the bill as amended April 3, 2008, still applies.

Board Position:

_____ S _____ NA _____ NP
 _____ SA _____ O _____ NAR
 _____ N _____ OUA _____ X PENDING

Legislative Director

Date

Brian Putler

5/9/08

ANALYSIS

THIS BILL

This bill would conform California law to the two business-expensing provisions of the federal ESA of 2008, small business expensing and bonus depreciation.

Small Business Expensing

This bill would conform to the federal changes made by the ESA of 2008, which increase:

- The deduction amount¹ from \$25,000 to \$250,000 for any taxable year beginning in 2008; and
- The limitation threshold² from \$200,000 to \$800,000 for any taxable year beginning in 2008.

Bonus Depreciation

Current CA law does not allow bonus depreciation.

This bill would conform to the ESA of 2008, which allows taxpayers to expense 50% of the depreciable cost of qualified property that is acquired on or after January 1, 2008 and before January 1, 2009.

ECONOMIC IMPACT

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of AB 2491 Effective for Tax Years BOA 1/1/2008 Enacted After 6/30/2008 (\$ in Millions)			
2008-09	2009-10	2010-11	2011-12
-\$1,500	-\$150	\$400	\$320

¹ Currently a taxpayer with a sufficiently small amount of annual investment may elect to deduct up to \$25,000 (i.e. the deduction amount) of the cost of qualifying property placed in service for the taxable year.

² The \$25,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds \$200,000 (i.e. the limitation threshold).

Revenue Discussion

The revenue impact of this bill was estimated as the combined impact of conforming to the two business-expensing provisions of the ESA of 2008, small business expensing and bonus depreciation.

The estimate is based on a proration of federal projections of the impact of the ESA of 2008 as follows. First, federal projections are extrapolated to 2008 based on California Department of Finance actual and projected corporate profits. Next, federal projections are adjusted down to California using a proration factor of 3.7%. This factor takes into account California's share of individual taxpayer's adjusted gross income and the difference between federal and California tax rates. Conforming to the small business expensing and bonus depreciation provisions of the ESA of 2008 is estimated to result in a revenue loss of \$2.4 billion for the 2008 taxable year.

The above taxable year estimates are then converted to cash flow fiscal year estimates as shown in the table. For example, the revenue loss of \$1.5 billion for the 2008-09 fiscal year includes a loss of \$1.6 billion from the 2008 taxable year, plus a gain of \$100 million from the 2009 taxable year due to reduced estimated and final tax payments.

The above taxable year estimates are then converted to cash flow fiscal year estimates as shown.

LEGISLATIVE STAFF CONTACT

Legislative Analyst
Scott McFarlane
(916) 845-6075
scott.mcfarlane@ftb.ca.gov

Revenue Manager
Rebecca Schlusser
(916) 845-5986
rebecca.schlusser@ftb.ca.gov

Legislative Director
Brian Putler
(916) 845-6333
putler.brian@ftb.ca.gov